Ontario's Economic Strategy for 1977

VT INCEPIT FIDELIS SIC PERMANET

The Honourable W. Darcy McKeough
Treasurer of Ontario

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Presented by the Honourable W. Darcy McKeough,
Treasurer of Ontario
in the Legislative Assembly of Ontario,
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INTRODUCTION

Mr. Speaker:

I want today to set before the Legislature the Government's economic strategy for the upcoming year. Our objectives remain unchanged - to sustain economic recovery without rekindling inflation, and to keep Ontario fully competitive in terms of new investment and new jobs.

The thrust of our policies in the last two Budgets has been to reduce the growth in government spending and to trim our bureaucracy in order to make room for private sector expansion and improved take-home pay. I am convinced this has been the right course because it shifts economic resources into the market economy, thereby building a more solid base for future growth and prosperity. We intend to continue this basic strategy of public sector control and private sector expansion during 1977.

In this Statement I shall review Ontario's economic performance and prospects. Though the Ontario economy is back on trend, continued healthy expansion requires perseverance in the attack on inflation and a positive climate for increased business investment and job creation. I shall also outline the main dimensions of the spending plan which the Government has drawn up for 1977-78, and announce several tax changes. We intend to continue spending restraint in 1977 and to provide long term tax incentives to ensure that this province records another dynamic and productive year.

ECONOMIC PERFORMANCE AND OUTLOOK

Mr. Speaker, in my April Budget I predicted brisk economic growth for the Ontario economy during 1976. This was predicated on the strong surge of activity in the second half of 1975 - propelled by this Government's expansionary actions - plus anticipated recovery in the U.S. economy. To date, the American economy has not rebounded as strongly as I had hoped. Nevertheless, Ontario is having a reasonably good year. Our real Gross Provincial Product is expanding at better than 5 per cent while prices have risen considerably less than I had predicted. Productivity has improved and, adjusting for seasonal factors, nearly 100,000 new jobs have been created since mid-1975.

We can be justifiably proud of these economic results. Over the last 3 years, that is during the course of the last business cycle, Canada has significantly outperformed such other jurisdictions as the U.S., Japan and the OECD bloc of industrial nations. And Ontario's record in industrial production has exceeded that of Canada.

ONTARIO ECONOMY A TOP PERFORMER, 1976/1973
(per cent)

	Ontario	Canada	U.S.	Japan	OECD
Real Growth	8.7	8.9	3.1	7.2	4.4
Industrial Production	5.7	3.9	-0.6	-1.7	0.4

Source: The Conference Board in Canada, OECD and Ontario Treasury

Turning to the prospects for next year, I am quite optimistic. Published 1977 forecasts for the Canadian economy range from 4 per cent to better than 6 per cent real growth, along with a continuing reduction in the rate of inflation. No improvement is foreseen for unemployment in Canada however, and business investment is expected to remain sluggish. I anticipate broadly similar trends for the Ontario economy. While there is weakness in our manufacturing and construction sectors, exports and consumer spending are advancing strongly. I look forward to a greater increase in new jobs in Ontario than in 1976, which should improve our unemployment rate. Overall, I expect our real output in 1977 to grow at about the 5 per cent rate achieved in 1976, and prices should continue to moderate. This will provide a sound basis to begin the process of phasing out the Anti-Inflation Program.

The Anti-Inflation Program

Mr. Speaker, the challenge for economic management in 1977 is to ensure that cost and price stability is restored in the Canadian economy, so that controls can be terminated on schedule. The reason we have controls today is that, during a period of international inflation, Canada tried to have the best of both worlds. We wanted high levels of public services and low taxes; we wanted high wages, salaries and profits, and low costs and prices. All participants in the economic process - government, labour and business - must now accept with hard-nosed realism that we can't have the best of both worlds. To ensure the growth, jobs and prosperity we all want, Canada must remain competitive with its trading partners.

We are now more than a year into the Anti-Inflation Program, and I believe that the progress made is encouraging. As of October, the year-over-year increase in the Consumer Price Index had declined to 6.2 per cent, a full 4 percentage points lower than the double digit level of the previous two years. Certainly, much of this improvement is attributable to the decline in food prices, which are only partly subject to controls. But there has also been encouraging moderation in other cost-of-living components.

Mr. Speaker, some people would lead us to believe that the AIP works only to control wages and salaries, while prices and profits go unrestrained. This view simply does not square with the facts. Collective bargaining settlements have indeed come down significantly - to 9.7 per cent in the third quarter of 1976 from about 15 per cent in the spring of 1975. But, real wages are rising faster today than they were prior to controls. And the share of Gross National Product accounted for by wages and salaries has increased over the past 12 months. Corporate profits have not shown comparable gains; in fact their share of GNP has declined. Later in this Statement I shall discuss the matter of profits more fully. Suffice it now to note that shrinking profits bring falling investment, and that our economy with its still growing labour force must invest and must grow.

I would like to table, for the information of the Members, a report prepared by my staff which assesses the operation of the AIP since its inception last October. I am convinced that the controls

program has been successful in restraining price inflation, without sacrifice of jobs or real income. And I am confident that the program can be phased out on schedule.

Honourable Members have been informed by the Premier, of Ontario's intention to seek other constructive suggestions and proposals for actions this Government can take on its own, as well as for directions that national economic policy should take, following termination of the controls program. We intend in a public way to involve representatives of all sectors of society in the development of provincial positions on these matters.

Productivity Improvement

Mr. Speaker, I would like now to turn to the matter of improving productivity, which is the key to strong economic performance in the longer run. Productivity results not just from the efforts of labour, but also from capital investment, technological advance and human initiative. In my Budget Statement last April, I drew attention to the wide productivity gap between Canada and the United States. Since then the American government has revised downward its productivity statistics, and Canada's relative performance does not look quite as bad. Nevertheless, there is no room for complacency. The basic fact remains that productivity in Canadian manufacturing is almost one-fifth below that in the U.S., while our average wages in manufacturing are above U.S. levels. At the same time, Canadian firms face higher interest costs and Canadian exporters face an exchange rate above parity.

The problems created by this situation are well known. Since 1973 there has been little expansion, and not enough new job opportunities have been created in Canada's manufacturing sector. Our trade balance in finished goods has continued to deteriorate. Even after the revival in the auto sector, the trade deficit has come down only modestly.

Productivity improvement is a question of vital significance for Ontario, because this province accounts for over half of all manufacturing employment in Canada. If we hope to maintain and expand our manufacturing base - and the high-paying jobs that it generates - then we have no choice except to increase our productivity. Later in this Statement I will outline tax measures to encourage investment in new machinery and equipment, thereby upgrading our efficiency. I am convinced, however, that there must also be a basic re-orientation of thinking and attitudes if we are to remain competitive in the post-control period, including:

- a recognition that healthy profits are crucial to new investment;
- a realization that only through increased investment and increased productivity can we secure permanent gains in employment;
- a recognition that our plants must be of world-scale, even though this means more concentrated industries; and
- a reappraisal of foreign investment policies at both the federal and provincial levels to ensure that we are not discouraging beneficial capital inflows.

The Importance of Profits

All Members will appreciate the key role played by our private enterprises in generating the new investment, jobs and rising incomes essential to continued prosperity in Ontario. But this activity will only take place when corporations, large and small, are earning adequate profits and have confidence about the future. They must also believe in the ability of government to guide the economy with a minimum of interference and to create an environment which encourages savings and investment and rewards private initiative.

Weakness in profits reduces corporate cash flows and holds down investment. For the interest of Members I have provided a table showing the after-tax profits performance of 30 important Ontario corporations which have reported results for the first nine months of 1976. The figures show a decline for most natural resource companies including mining, oil and pulp and paper. Overall, after-tax profits are down 2.7 per cent for these large companies, while sales (revenues) are up 11.1 per cent. Profits before taxes for these 30 large companies show a similar adverse trend.

The rapid inflation of recent years has had both positive and negative effects on corporate profits. While inventory profits have been substantial in many cases, overall growth in profits has slowed considerably since 1974. Pre-tax profits in Canada, which rose at an average of 22.1 per cent per annum from 1972 to 1974 after adjustment

AFTER-TAX PROFITS OF 30 LARGE ONTARIO CORPORATIONS

Company	AFTER-TAX PROFITS 9-Months 1975 ($ million)	9-Months 1976 ($ million)	Change (%)
Royal Bank	113.0	119.6	5.8
Bank of Commerce	91.7	108.1	17.9
Toronto-Dominion Bank	65.0	68.2	4.9
Bell Canada	187.7	218.4	16.4
Canadian Pacific	121.5	124.6	2.6
Inco	151.2	135.9	-10.1
Alcan	26.8	21.0	-21.6
Imperial Oil	198.2	192.3	-3.0
Noranda Mines	43.8	30.1	-31.3
Gulf Oil	128.5	118.1	-8.1
Stelco	68.5	69.8	1.9
Ford	85.3	116.5	36.6
Dofasco	38.7	52.8	36.4
Hiram Walker-G.&W. (full year)	50.6	55.3	9.3
Abitibi	19.7	3.1	-84.3
Texaco	39.1	16.0	-59.1
Falconbridge Nickel	5.5	6.4	16.4
Domtar	29.2	9.1	-68.8
Genstar	33.5	40.6	21.2
Canadian General Electric	25.0	21.1	-15.6
Rio Algom	21.0	24.3	15.7
Canada Cement Lafarge	18.0	16.0	-11.1
Union Carbide	32.5	21.3	-34.5
Reed Paper	15.1	2.9	-80.8
Du Pont	1.1	-0.7	-
Rothmans	13.3	11.5	-13.5
Canadian Industries Limited	35.6	19.8	-44.4
Westinghouse	11.1	9.6	-13.5
Denison Mines	22.0	12.7	-42.3
Southam Press	12.4	14.8	19.4
TOTAL - 30 COMPANIES	1,704.6	1,659.2	-2.7

for inventory inflation, increased by 8.1 per cent in 1975 and are estimated to rise about 10 per cent in 1976. This downtrend is also reflected in the drop in pre-tax profits expressed as a percentage of Gross National Income , from 13 per cent in 1974 to an estimated 10 per cent in 1976.

Inflation Accounting

The longer run implications of these developments are unclear. In fact, there is much debate about the nature of the impact of inflation on corporations and its implications for social equity, investment and productivity. There is an obvious conflict between the conventional accounting tenets which show rapidly rising profits in inflationary periods and the stock market's negative and nervous reaction. Profits and debt financing are the vital lubricants of business investment and growth, and there will be enormous public and private demands for capital in the years ahead. I believe it is essential that we understand better the implications of inflation on corporate finances.

My concern is that in dealing with the performance of profits in the economy we substantially underestimate the impact of inflation on replacement costs to the individual firm. I think there is general agreement that financial statements, based on traditional historical cost accounting, understate the escalating costs to businesses of replacing machinery, equipment, buildings and inventories.

As Members are aware, investment creates jobs. The sensitivity of the investment climate is a real and frequently troublesome factor in the job creation process. I think we have to be concerned, therefore, if financial statements are overstating the profit performance of our industries and overstating the soundness of their position. At the extreme, Mr. Speaker, we have the example of British Leyland, a major U.K. automotive firm, which was forced into virtual receivership despite financial statements which continued to report profits. The chances are high that this kind of situation is more widespread than we suspect.

The effects of misrepresentation of financial status can affect us in a number of ways. Individual investors are faced with incomplete and inadequate information on which to base decisions. Even well-managed pension funds, which account for a large and growing share of business ownership, face this problem. Certainly, equity markets have discounted share values for the impact of inflation and the dismal results are plain to see. To the extent that traditional business accounting does not reflect these realities, company management is unable to assess accurately its own performance or to determine appropriately capital investment decisions. I believe, furthermore, that the public interest is not properly served by a narrow access to information about the actual performance of the private sector. This affects not only the public perception of the business community, but also governments' appraisal of the economic environment and the regulation of securities markets.

Mr. Speaker, there has already been considerable discussion and preliminary study of so-called inflation accounting both in the private and in the public sector. I believe that the merits of such financial disclosure have been well documented, and other jurisdictions are already pulling ahead of us in this matter. For example, a program of action has already been initiated by the Securities and Exchange Commission in the United States, and various countries in Europe as well as Australia are either studying the matter or have taken action on it.

The capacity of the business community to undertake job creating investment is vitally important to the economic well-being of Ontario and a matter of concern to all of us. Our citizens have a direct stake in the health of business through their pension funds and personal savings. Therefore, the Government is establishing a committee to examine the various options open to us and to advise on a course of action for implementing a program of financial disclosure of the effects of inflation in Ontario. I understand that others, both at the federal level and in various professional organizations, have expressed an interest in the problem. I believe, however, that Ontario must take the lead.

We have retained the Toronto chartered accountancy firm of Touche Ross and Company to undertake this study and have asked Michael Alexander, a partner of this firm and a Fellow of the Institute of Chartered Accountants of Ontario to take responsibility for chairing

the committee. Mr. Alexander has previously been extensively involved in a major study of this issue and has been the author of a number of important papers on the subject.

In addition, I have asked four other experienced individuals, representing a spectrum of interest and backgrounds, to assist Mr. Alexander in this undertaking. These four are: Adam Zimmerman, Executive Vice-President of Noranda Mines Limited; James Fleck, the Deputy Minister of the Ministry of Industry and Tourism; Sam Martin, Professor of Business Administration, University of Western Ontario; and Gordon Milling, Director of Research, United Steelworkers.

Peter Honey, Assistant Deputy Minister in my own Ministry, will serve as secretary of the committee. Additionally, Charles Salter, Director of the Ontario Securities Commission, and Morley Carscallen, partner in Coopers & Lybrand, and Chairman of the Financial Disclosure Advisory Board of the Ontario Securities Commission will act as advisors.

During the next six months, the committee will solicit the views of a broad range of people with an interest in the subject. I also expect that they will involve other individuals and organizations with an expertise in the area to provide an input in the process. I anticipate a full set of recommendations on the scope, process and implementation procedures for a program of business disclosure of the effects of inflation.

Along with this Statement is a more detailed description of inflation accounting together with terms of reference of the committee.

1977 EXPENDITURE PLAN

Mr. Speaker, a key element in Ontario's economic strategy is control of government spending. The Government of Ontario has clearly stated its philosophy on this issue - excessive growth in public spending bids away economic resources from more productive uses, contributes directly to inflationary pressures and detracts from the long-run growth capacity of the economy. We have worked hard in this province to avoid these pitfalls, and in the process have emerged with more efficient public services and less upward pressure on our tax structure. This maintains our financial integrity, strengthens our inherent economic advantages and gives us more leeway to respond to short-term stabilization requirements.

Our approach of overall limits on spending growth plus sharper priority-setting within these limits will continue in 1977-78. The Government has established a ceiling of 9.6 per cent as the spending increase that this Province and its taxpayers can afford for the next fiscal year. This compares favourably with the now estimated 11.5 per cent increase in the current year and, more important, is substantially below the expected expansion rate for the economy as a whole in 1977. I shall outline the main details of our 1977 spending plan in a moment, but first I would like to review for Members the performance of our 1976 budget plan.

ONTARIO CUTS GROWTH IN SPENDING

Fiscal Year	Spending Level ($ million)	Spending Growth Rate (%)
1974-75 actual	9,830	24.7
1975-76 actual	11,319	15.1
1976-77 interim	12,616	11.5
1977-78 target	13,830	9.6

1976 Budget on Target

Mr. Speaker, in October we published the second quarter issue of Ontario Finances. It showed that after 6 months of the current fiscal year our 1976 budget plan was right on target. On both the revenue and expenditure sides, our actual performance was within 4/10 of 1 per cent of the original totals, and our cash requirements were virtually unchanged from the $1,230 million tabled in this Legislature on April 6, 1976.

As we enter the eighth month of this fiscal year our finances are still on target. As of today, I estimate our revenues at $11,378 million, up $32 million, and our expenditures at $12,616 million, up $40 million. This revises our cash requirements to $1,238 million - only $8 million above my original plan.

1976 BUDGET PERFORMS ON TARGET
($ millions)

	Revenue	Expenditure	Cash Requirements
April 6 Budget Plan	11,346	12,576	1,230
Performance:			
. as of June 30	11,347	12,581	1,234
. as of September 30	11,389	12,626	1,237
. as of November 23	11,378	12,616	1,238
Change since Budget	+32	+40	+8

All Ministers and Deputies have responded to Premier Davis' strong leadership in controlling our spending and have contributed to this success. They have made sure our new budget control system works, even though this meant shifting resources out of their own Ministry Estimates to meet unavoidable and unforeseen increases in other areas such as hospitals, community arenas and fire fighting. This has allowed Management Board to keep in-year spending deterioration to a bare minimum. It demonstrates that with firm resolve government can trim costs and shift priorities to meet new needs.

EXPENDITURE CONTROL GRIPS IN
($ millions)

Fiscal Year	Original Plan	Actual Results	In-Year Spending Increase
1974-75	8,915	9,830	+ 915*
1975-76	11,028	11,319	+ 291
1976-77	12,576	12,616**	+ 40

* Includes $420 million start-up funding for Ontario Land Corporation and Ontario Energy Corporation.

** November 23rd interim estimate.

ONTARIO'S SPENDING CONTROL SYSTEM IN OPERATION
($ millions)

Original Spending Estimates for 1976-77		12,576
Add:		
.Supplementary Estimates	159	
.Increases in Statutory Items	45	
.Other Potential Increases	29	+ 233
Subtract:		
.Funds Constrained by In-year Monitoring		- 193
Revised Spending Estimates		12,616

To date, the Government has identified $233 million in spending requirements over and above the 1976 Estimates. The Chairman of the Management Board will table today Supplementary Estimates covering $159 million of this amount; the balance of $74 million represents Statutory items and contingencies for other potential overruns. The important thing, however, is that our net additional spending for 1976 has been kept to $40 million; the rest of the unavoidable increases in spending have been offset by deliberate savings we will realize within the original Estimates.

1977 Spending Priorities

Mr. Speaker, the Government's top goal in determining its 1977 expenditure package was to contain the increase in our total spending well below the expansion in the economy as a whole. Our second goal was to ensure that our commitments to local governments were fully honoured. And, our third goal was to minimize our operating costs and overhead expenditures, so that more resources would be available for job-creating investment projects. The 1977 spending plan which I am outlining today meets each of these objectives.

1977 SPENDING GOALS

	Per Cent Increase
1. Constrain Public Sector Growth	
Expansion of the Economy	12+
Increase in Ontario's Spending	9.6
2. Support Local Governments	
Transfers to Local Governments	10.7
Own-Account Spending	9.3
3. Increase Government Efficiency	
Own-Account Spending	9.3
Operating Costs and Overhead	6.2

Total outlays in 1977-78 are planned at $13,830 million, an increase of $1,214 million or 9.6 per cent over the current year. Originally, the Government had aimed at the extremely difficult target of 8 per cent increase for 1977, but found that this was unachievable without harm to essential Provincial services. Let me emphasize, however, that this $13.8 billion amount is the spending ceiling for next year. If new requirements arise during the year, we will adjust our spending plan to find the necessary funds within that total.

Transfers to local governments will increase by $330 million, in line with our Edmonton Commitment. This is a considerably more generous increase, at 10.7 per cent, than we have allowed for our own-account spending - which will rise by only 9.3 per cent. Members will recall that the Government announced this important element of our spending plan on September 10, and that early announcement has proven extremely helpful to municipalities, school boards and local agencies. It has allowed them to plan ahead and prepare their budgets for 1977, knowing with certainty the Provincial transfers they would receive. I have received numerous messages of appreciation to this effect. To quote a recent letter from the President of the Association of Municipalities of Ontario:

> "The Board of Directors of the Association and its member municipalities express their appreciation to you in fulfilling the commitment you made last year to provide local governments with advance notice on proposed provincial transfer payments for 1977-78, and for having achieved this objective some six and one-half months prior to the fiscal year-end of the province and three and one-half months prior to the municipal fiscal year-end".

Mr. Speaker, I am hopeful that we can provide this early notice of Provincial transfers again next year, as it obviously is a great help in local budgeting.

DISTRIBUTION OF 1977-78 TRANSFERS TO LOCAL GOVERNMENTS AND AGENCIES
($ millions)

	Estimated 1976-77	Projected 1977-78	Increase in Transfers
Education	1,715	1,880	+ 165
Municipal - Conditional	1,010	1,110	+ 100
- Unconditional	371	436	+ 65
TOTAL	3,096	3,426	+ 330

Turning to our own - account spending, after meeting our Edmonton Commitment, we have provided $884 million in new dollars for all of our programs. Health care is allotted $360 million - an increase of 11.6 per cent - including an additional $64 million for home care, extended care and mental health and other special health programs. Support for universities and colleges plus student aid is increased by $89 million, up 9.3 per cent. Provincial social assistance is allotted $69 million or an 11.8 per cent increase. Spending on agriculture programs is increased by $14 million or 12.8 per cent. We also have allocated increases of $85 million and $150 million respectively for civil service salaries and interest on the public debt. The remaining $117 million is distributed among all of our other programs, including provincial roads and transit, provincial loans, and general government support.

Mr. Speaker, I believe the Government has drawn up a balanced and responsible spending plan for next year. When it is brought forward in the form of detailed Estimates, I am confident that it will commend itself to all Members of this Legislature.

1977 EXPENDITURE PRIORITIES

	1976-77 Interim ($ millions)	1977-78 Allotment ($ millions)	Increase ($ mill)	Increase (%)
Major programs				
. Health care	3,092	3,452	360	11.6
. Grants to universities, etc.	952	1,041	89	9.3
. Provincial social assistance	587	656	69	11.8
. Agriculture programs	109	123	14	12.8
. Provincial roads and transit	303	328	25	8.3
. Provincial loans and capital	847	870	23	2.7
. General government and support	1,317	1,386	69	5.2
. Civil service salaries	1,421	1,506	85	6.0
. Public debt interest	892	1,042	150	16.8
. Edmonton Commitment transfers	3,096	3,426	330	10.7
TOTAL SPENDING	12,616	13,830	+1,214	+9.6

In concluding this explanation of our 1977 spending plan, let me report on two related matters.

Mr. Speaker, as of October 31, we have achieved our target reduction of 1,000 civil service complement positions during this fiscal year. We are now down to 66,537 complement positions, a cut of more than

4,200 since 1974. This pruning has been a very healthy exercise; it has left Ontario with a leaner and more efficient public service. The Government has decided not to push for further complement reductions in 1977. Rather, we shall strive, within the constraint of zero growth, to achieve further efficiencies in the use of our manpower and better service delivery to the taxpaying public.

One of the most useful actions we have taken in waging our war on waste was to establish the Special Program Review Committee. It brought refreshing outside perspectives to the evaluation of our spending and challenged long-held views. Having completed its review of the S.P.R. report, the Government agrees in principle with many of its recommendations, as indicated by the summary response which I shall table today. Details on how specific recommendations are to be implemented or their purpose otherwise accomplished will be the responsibility of individual Ministries.

The job done by the Special Program Review Committee was a very useful exercise for the Government as a whole. We see great merit in undertaking such a searching examination of our spending on a regular basis.

FEDERAL-PROVINCIAL DEVELOPMENTS

Before proceeding with the tax actions the Government now proposes, I should like to report on the fiscal aspects of federal-provincial affairs. As Members know, the provinces have been negotiating with the federal government to devise new fiscal arrangements for the next five years. These negotiations have been conducted against a background of federal retrenchment on all major fronts.

On the positive side, however, the federal government has come around in its thinking and seems prepared to proceed with fundamental reforms of our fiscal arrangements, particularly in respect of the mature shared-cost programs. Members are aware that Ontario and some other provinces have argued consistently that cost sharing should be replaced by tax sharing, providing provinces with the independent fiscal capacity to carry out their constitutional responsibilities. On the basis of the current federal proposals, it appears that Ottawa is now ready to accept this basic change.

I believe an important breakthrough among the provinces themselves has also been achieved. After a number of meetings of provincial finance ministers, we have been able to agree on a common position to take to the bargaining table with Ottawa. Undoubtedly, this consensus reflects the concern of all provinces over federal

fiscal retrenchments. But it also represents a real achievement, given the regional differences that exist across this country.

The largest single issue for the provinces is the Revenue Guarantee. Its termination, without equivalent replacement, means an erosion of the occupancy in the income tax field that the provinces have held for over a decade. The provinces are unanimous that a fair and appropriate replacement requires the transfer of four personal income tax points. I believe that the federal government recognizes the legitimacy of the provincial argument and will not act in such a way as to jeopardize the trust on which our federal system is based.

What Ontario seeks in these federal-provincial negotiations is disentanglement of responsibilities and a commensurate redistribution of fiscal resources between levels of government, so that public services can be provided more efficiently. Obviously, this should be possible without an increase in the total tax burden. I am optimistic that the current negotiations with Ottawa will lead to this result.

As these negotiations will continue over the next few months, it would be premature for Ontario to prejudge the outcome by raising its income tax rate as of January 1, 1977. I am announcing, today, therefore that Ontario's tax rate will remain at 30.5 per cent until these fiscal negotiations are finalized. The Minister of Revenue will introduce the Bill today.

While on the subject of the personal income tax, I would like to take this opportunity to draw Members' attention to an important research study just completed by my staff. Ontario Tax Studies 12, which I am tabling today, analyzes the major growth characteristics of the personal income tax in Ontario and examines how the income tax system is used to encourage savings and investment. This Province intends to continue its research on the tax system to ensure that the 1972 reforms and subsequent changes work to the benefit of our economy and our taxpayers.

TAX ACTIONS

Mr. Speaker, the temporary exemption of production machinery from retail sales tax is scheduled to expire at the end of this year. There is ample evidence that this has been an effective incentive; our businesses have used it to expand production and improve their competitiveness. All Ontarians benefit from these actions because the economy generates a high return from the tax dollars so invested.

In recent years, Ontario's share of total new investment in Canada has been declining. A number of factors account for this trend, including the massive investment in energy resources and major public projects in other parts of Canada, such as the Olympics. On the other hand, Ontario's share of new investment in machinery and equipment has continued upward, increasing steadily from 38.5 per cent in 1972 to 39.4 per cent in 1975. It is clear from these figures that this province continues to have a strong underlying attraction to the manufacturing and related industries. This reflects our favourable geographic location, our highly-skilled labour force, our strong resource base, and, of course, stable and conservative government.

ONTARIO'S SHARE OF NEW INVESTMENT IN CANADA

Year	Total New Investment Per Cent	New Investment in Machinery and Equipment Per Cent
1972	37.1	38.5
1973	36.5	38.6
1974	35.9	39.0
1975	34.3	39.4

Over the past two years, there has been another significant trend in investment patterns in Ontario - a productive shift in favour of private sector investment, particularly in machinery and equipment. The business share of total new investment has risen by more than 1 percentage point and the share of machinery and equipment investment, a full 2 percentage points. This transfer of resources reflects directly the Government's restraint program and its tax policies. In particular, the temporary exemption of production machinery and equipment introduced in April 1975 and the incentives provided to the mining industry since 1974 have proven to be powerful stimulants. In 1976, for example, the growth in new investment in our manufacturing and mining industries is expected to be significantly higher than in the rest of the country.

SHIFT OF INVESTMENT RESOURCES TO THE PRIVATE SECTOR IN ONTARIO

	Percentage Shares	
	Public	Private
Total New Investment		
1975	31.0	69.0
1976 (preliminary)	30.3	69.7
1976 (revised)	29.6	70.4
1976 revised/1975	-1.4	+1.4
New Machinery and Equipment		
1975	25.7	74.3
1976 (preliminary)	24.3	75.7
1976 (revised)	23.7	76.3
1976 revised/1975	-2.0	+2.0

Source: Statistics Canada

Comparative Tax Burdens

Mr. Speaker, this province must remain competitive with other jurisdictions in terms of attracting new industry and investment. Even with the present exemption on production equipment, the sales tax burden on new investment is higher in Ontario than in Michigan, Ohio, Pennsylvania or New York, and about level with Minnesota and Quebec. A reimposition of the retail sales tax on January 1, 1977 would mean a much higher tax burden in Ontario than in any of these other jurisdictions. This is clearly undesirable since it would reduce our competitive edge, hamper investment and retard job creation. I am including a table comparing our sales tax burden with that of other jurisdictions, to demonstrate why it is imperative that we keep the sales tax off machinery and equipment.

COMPARISON OF SALES TAX BURDENS

Province or State	General Tax Rate	Rate on Production Machinery	Provincial or State Tax Burden on $80 Million New Investment	Federal Sales Tax	Total Sales Tax Burden
	(%)	(%)	($ 000)	($ 000)	($ 000)
Ontario	7	Exempt	1,765	720	2,485
Quebec	8	Exempt	1,818	720	2,538
Michigan	4	Exempt	880	-	880
Minnesota	4	4	2,480	-	2,480
New York 1/	4	Exempt	1,180	-	1,180
Ohio 2/	4	Exempt	880	-	880
Pennyslvania	6	Exempt	1,320	-	1,320

1/ In New York city, a 4% sales tax is levied on machinery and equipment, increasing the tax cost for an $80 million investment by $1,310,000.

2/ In Ohio, an additional local tax of 1% is levied on building materials and non-production equipment, the cost of which is estimated at $220,000.

Note:

A typical $80 million investment comprises the following major components:

buildings	$30 million
production equipment	$30 million
other machines and tooling	$20 million

Sales Tax Exemption on Machinery and Equipment

Effective January 1, 1977, therefore, I propose that the current temporary exemption be replaced by a new long-term exemption. This will exempt from tax all production machinery and equipment used by the private sector in the production of tangible personal property. I estimate that this tax measure will cost $160 million in a full year and perhaps $10 million in the remainder of this fiscal year. Examples of the tax savings which will flow to businesses making new investments in Ontario are set out in the following table.

The definition of production machinery and equipment will be simplified by closely paralleling the federal exemption provision described in Part XIII of Schedule III of the federal Excise Tax Act. This important tax simplification initiative will be beneficial both to the Government and business enterprises. The new definition is also broad enough to encompass pollution control equipment and equipment used to remove waste and noxious fumes. Full details will be provided by the Minister of Revenue.

EXAMPLES OF TAX SAVINGS ON PRODUCTION MACHINERY
(dollars)

	Purchase Cost	Tax Savings
Production Facilities Required for a Medium Size Manufacturing Plant	50,000,000	3,500,000
Machines Used by Manufacturers:		
. lathe	25,000	1,750
. cutting and shaping press	80,000	5,600
. milling machine	5,000	350
. automatic thread grinder	100,000	7,000
. winch	50,000	3,500
Machines Used in Mining:		
. horizontal drilling and tapping machine	250,000	17,500
. mounted rotary rock drill	93,000	6,510
. ore crusher	58,000	4,060
Machines Used in Forestry		
. skidder	75,000	5,250
. tree harvester	149,000	10,430

Other Tax Actions

In addition to this long-term cost reducing incentive, I will be considering the merits of extending the manufacturing and processing fast write-off for Ontario tax purposes. This incentive was introduced by the federal government and paralleled by Ontario in 1972 to reduce

the tax burden on the manufacturing sector. This action was necessary to keep Canadian industry on a competitive footing in light of the United States' export - encouraging DISC legislation.

In 1974, the federal government extended the fast write-off incentive indefinitely, while we continued it until the end of 1977. The cost of this incentive will be a significant factor in our determination of whether or not it will continue. Under the Revenue Guarantee, Ontario is reimbursed by the federal government for the loss of tax revenues due to paralleling the incentive, but only until the end of this year. If the corporation tax Revenue Guarantee expires on December 31, 1976 as announced by the federal government, then Ontario would have to absorb the cost of the fast write-off for 1977 and subsequent tax years. This may be as much as $80 million in the 1977-78 fiscal year.

The Minister of Revenue will also be introducing a Bill amending the treatment of foreign income under our Corporations Tax Act. It will provide a full foreign tax credit, to parallel the tax treatment in other provinces.

The above incentives extend to large and small businesses alike. However, small businesses still face many problems in raising capital for expansion. I am therefore tabling a progress report prepared by my staff on Venture Investment Corporations. You will recall that I

introduced Bill 44, "An Act respecting the Registration of Venture Investment Corporations", for first reading only with my 1976 Budget legislation. Since that time my staff have had extensive discussions with interested individuals, company representatives, federal and provincial government officials and private sector associations. A revised version of the Bill is attached to the report. We have requested a commitment from Ottawa that there will be no federal attempt to discourage or neutralize this incentive program through contrary tax treatment.

CONCLUSION

In conclusion, Mr. Speaker, let me sum up my Statement today. After reviewing current economic performance and anticipated future trends, the Government of Ontario has decided its basic economic strategy for the upcoming year. We will carry forward into 1977 our concerted effort to restrain public expenditure and to foster private sector expansion. These positive policies will work to combat inflation, to strengthen the competitiveness of our industries and to create expanded employment opportunities for our people. I believe this is the correct policy approach at this time. It builds upon our generally good economic recovery in 1976, and our reasonably buoyant prospects for next year. But it also stimulates the lagging sector of investment - which is the key to improved productivity, job creation and real prosperity in the longer run.

Let me state clearly, however, that we will not adhere slavishly to this approach if circumstances change. We are monitoring the economic situation closely and are prepared to take decisive stimulating actions - just as we did in 1975 - if new policy initiatives are needed. The performance of the economy will be reported in our 1977 Budget, along with the Province's fiscal and financing program for 1977-78.

Mr. Speaker, I am optimistic about Ontario's future. This Province has proven consistently, that with the right combination of public policies our inherently strong economy performs dynamically and generates for our citizens a standard of living and quality of life second to none. This Government, under the wise leadership of Premier Davis, is determined to continue to provide that right combination of policies for the people of Ontario.

APPENDIX

DETAILS OF TAX CHANGES

RETAIL SALES TAX ACT

- Effective January 1, 1977, a new incentive will take effect exempting machinery and equipment acquired for use directly in the manufacture or production of tangible personal property.
- The exemption provided for such equipment will not be available to the Ontario Government and local governments, and their respective agencies, boards and commissions.
- Information on qualifying machinery and equipment and other details of the incentive will be provided by the Minister of Revenue.
- The temporary exemption introduced in the April 1975 Budget for machinery and equipment used in the production of tangible personal property, or used in construction, will expire as scheduled on December 31, 1976.

- For purchasers who qualify under the new incentive, the filing requirements on orders valued over $15,000 placed by December 31, 1976 will be waived. Other purchasers will benefit from a simplification of the filing requirements, details of which will be provided by the Minister of Revenue.
- Enquiries regarding retail sales tax matters should be directed to:

  Retail Sales Tax Branch
  Ministry of Revenue
  77 Bloor Street West
  Toronto, Ontario M7A 1X8
  (416) 965-5772

  or

  contact the nearest Retail Sales Tax District Office.

THE CORPORATIONS TAX ACT

- Section 104 will be amended to increase the rate of Ontario's foreign tax deduction from 10 per cent to 12 per cent and to extend the deduction to include taxable capital gains, effective for fiscal years of corporations ending after December 31, 1975.
- Enquiries regarding corporation tax matters should be directed to:

  Corporations Tax Branch
  Ministry of Revenue
  77 Bloor Street West
  Toronto, Ontario M7A 1X8
  (416) 965-4040

Financial Statements

STATEMENT OF CASH REQUIREMENTS
AND RELATED FINANCING 1976-77

TABLE 1

	Budget Estimate	November 23rd Estimate	Increase (Decrease)
	(Millions of Dollars)		
BUDGETARY TRANSACTIONS			
Revenue (Table 2)	10,814	10,793	(21)
Expenditure (Table 3)	11,791	11,870	79
Budgetary Deficit	977	1,077	100
NON-BUDGETARY TRANSACTIONS			
Lending and Investment Activity (Table 4)			
Receipts	185	207	22
Disbursements	680	634	(46)
Net Increase in Lending Activity	495	427	(68)
Special Purpose Accounts (Table 5)			
Credits	347	378	31
Charges	105	112	7
Net Increase in Special Purpose Accounts	(242)	(266)	(24)
Non-Budgetary Transactions (Net)	253	161	(92)
NET CASH REQUIREMENTS	1,230	1,238	8

FINANCING			
Non-Public Borrowing (Net)	1,246	1,255	9
Public Borrowing (Net)	(37)	(232)	(195)
Total Net Borrowing	1,209	1,023	(186)
Reduction in Liquid Reserves	21	215	194
TOTAL FINANCING	1,230	1,238	8

Excludes all transactions relating to the issue, retirement and servicing of all debentures by the Province on behalf of Ontario Hydro.

BUDGETARY
REVENUE

TABLE 2

	1976-77		
	Budget Estimate	November 23rd Estimate	Increase (Decrease)
	(Millions of Dollars)		
TAXATION			
Personal Income Tax (Net)	1,954	1,890	(64)
Revenue Guarantee	371	439	68
Corporation Taxes	1,128	1,128	-
Retail Sales Tax	1,917	1,860	(57)
Gasoline Tax	530	518	(12)
Tobacco Tax	152	152	-
All Other Taxation	366	365	(1)
	6,418	6,352	(66)
OTHER REVENUE			
Premiums - OHIP	790	790	-
LCBO Profits[1]	399	325	(74)
Vehicle Registration Fees	221	221	-
Other Fees and Licences	130	207	77
Ontario Lottery Profits	60	72	12
All Other Revenues	210	221	11
	1,810	1,836	26
FEDERAL GOVERNMENT PAYMENTS	2,171	2,167	(4)
INTEREST ON INVESTMENTS	415	438	23
TOTAL BUDGETARY REVENUE	10,814	10,793	(21)

[1] LLBO gallonage fees of $74 million transferred to Other Fees and Licences.

BUDGETARY
EXPENDITURE

TABLE 3

	1976-77		
	Budget Estimate	November 23rd Estimate (Millions of Dollars)	Increase (Decrease)
SOCIAL POLICY FIELD			
Health	3,343	3,451	108
Education	1,970	1,975	5
Colleges and Universities	1,168	1,168	-
Community and Social Services	985	973	(12)
Culture and Recreation	144	152	8
	7,610	7,719	109
RESOURCES POLICY FIELD			
Transportation and Communications	985	973	(12)
Natural Resources	212	241	29
Housing	171	173	2
Agriculture and Food	158	157	(1)
Environment	97	100	3
Industry and Tourism	63	60	(3)
Labour	19	20	1
Energy	4	4	-
	1,709	1,728	19
JUSTICE POLICY FIELD			
Solicitor General	129	142	13
Correctional Services	128	143	15
Attorney General	112	119	7
Consumer and Commercial Relations	64	65	1
	433	469	36
OTHER MINISTRIES			
Treasury	464	457	(7)
Government Services	291	283	(8)
Revenue	209	191	(18)
Other	34	36	2
	998	967	(31)
PUBLIC DEBT - INTEREST	870	892	22
UNALLOCATED SALARY AWARDS	171	95	(76)[1]
TOTAL BUDGETARY EXPENDITURE	11,791	11,870	79

[1] Reflects transfers to various Ministries.

NON-BUDGETARY TRANSACTIONS

TABLE 4

	1976-77		
	Budget Estimate	November 23rd Estimate (Millions of Dollars)	Increase (Decrease)
RECEIPTS			
Repayments of Loans and Investments:			
Education Capital Aid Corporation	52	57	5
Universities Capital Aid Corporation	23	24	1
Ontario Mortgage Corporation	18	21	3
Nuclear Power Generating Station	9	18	9
All Other Repayments	83	87	4
	185	207	22
DISBURSEMENTS			
Loans and Investments:			
Ontario Mortgage Corporation	221	196	(25)
Water Treatment and Pollution Control	143	146	3
Ontario Development Corporations	49	40	(9)
Ontario Housing Corporations	47	38	(9)
Education and Universities Capital Aid Corporations	121	110	(11)
Tile Drainage Debentures	13	17	4
Ontario Transportation Development Corporation	-	11	11
Other Loans and Investments	86	76	(10)
	680	634	(46)
NET INCREASE IN LENDING ACTIVITY	495	427	(68)

NON-BUDGETARY TRANSACTIONS

TABLE 5

	1976-77		
	Budget Estimate	November 23rd Estimate	Increase (Decrease)
		(Millions of Dollars)	
CREDITS			
Payments into Special Purpose Accounts:			
Public Service Superannuation Fund	223	223	-
Teachers' Superannuation Adjustment Fund	39	39	-
Province of Ontario Savings Deposits (Net)	31	34	3
Public Service Superannuation Adjustment Fund	21	11	(10)
Motor Vehicle Accident Claims Fund	21	24	3
Provincial Lottery Profits	-	20	20
Other	12	27	15
	347	378	31
CHARGES			
Payments from Special Purpose Accounts:			
Public Service Superannuation Fund	52	52	-
Ontario Energy Corporation	37	40	3
Motor Vehicle Accident Claims Fund	13	14	1
Other	3	6	3
	105	112	7
NET INCREASE IN SPECIAL PURPOSE ACCOUNTS	242	266	24